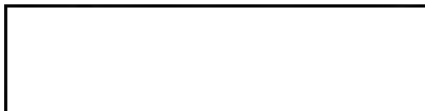


TOP SECRET

12 October 1954

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DIA and DOS review(s) completed.

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GENERAL**1. Soviet support seen for Chinese Communist complaint to UN:**

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Ambassador Bohlen in Moscow expects the Soviet delegation at the UN to support Chinese Communist premier Chou En-lai's complaint, made in a cable to

the General Assembly, against "the aggressive action of the United States government in interfering with the Chinese people's liberation of Formosa." Chou asks the General Assembly to call on the United States to withdraw all its military personnel from Formosa, the Pescadores and Nationalist-held offshore islands.

Bohlen doubts that Chou's move presages an early military operation against Formosa. He believes the Sino-Soviet motive is to introduce a controversial issue into the UN for its divisive effect among nations of the free world.

2. USSR makes new loan to Afghanistan:

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The Soviet Union and Afghanistan signed an agreement on 5 October providing for a Soviet loan valued at \$2,100,000, according to the Afghan foreign minister.

The new loan is to be used for the purchase of a road-testing laboratory and road-building machinery to pave Kabul streets.

Comment: This is the third Soviet-Afghan agreement signed this year providing for economic and technical assistance. A January agreement provided for a \$3,500,000 Soviet loan for building grain-processing plants and in April a \$600,000 loan was made to construct gasoline storage facilities in Kabul.

All three projects apparently are to be carried out with the assistance of Soviet technicians. The American military attaché in Kabul recently reported that 45 Soviet "families" had been flown into Kabul in addition to an unknown

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number of single male personnel. Afghan government officials identified the Soviet personnel as technicians to be used on the various Soviet-sponsored projects. [REDACTED]

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3. Peiping reported bidding for "defense alliance" with India and relations with Indian border states:

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[REDACTED] Chinese Communist diplomats in New Delhi are reported to have proposed conclusion of a "defensive alliance" with India and to have been seeking direct relations with the Indian border states of Nepal, Sikkim, Bhutan and the Kashmiri province of Ladakh. [REDACTED]

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[REDACTED] the Chinese are pressing for unrestricted trade rights in the latter three areas and the settlement of undemarcated boundaries between India and all the border states.

Comment: Peiping and New Delhi have both indicated that they regard their April 1954 agreement on Tibet as the equivalent of a nonaggression treaty. India would probably reject any Peiping proposal for a formal treaty.

Chou En-lai said on 23 September that Peiping was prepared to establish diplomatic relations with Nepal, which is believed to be the primary target for increased Communist subversion in the border states, and Peiping is expected to work for footholds in the other areas as well. During his forthcoming visit to Peiping, Nehru is unlikely to agree to increased Chinese Communist ties with any of the border states other than Nepal.

FAR EAST

4. Japanese becoming antagonistic toward American procurement policies:

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[REDACTED] The exclusion of Japan from bidding on an FOA contract for rolling stock for Korea and FOA's subsequent reduction

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from 100 to 25 of the number of locomotives for India in a Japanese bid have caused widespread dismay and could affect Japan's future orientation toward the free world, according to Ambassador Allison. Japanese editorials and official statements have treated the locomotive issue as evidence of American "undependability" and have dismissed press explanations from Washington as neither "fair nor convincing." The conclusion is being drawn that Japan has no alternative but to push vigorously for more trade with Communist areas.

Comment: The Japanese were declared the low bidders on the Indian locomotive deal and had expected to obtain the entire amount. Half of the offering was awarded, however, to an American firm, and recently the order for the Japanese was reduced by an additional 25.

Japan counts on American leadership to lift free world restrictions against Japanese trade and to find substitutes for Japan's former trade with China. Thus, it is particularly sensitive to American actions which suggest discrimination.

5. Chinese Nationalist naval forces score success near Tachens:

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Two Chinese Nationalist destroyer escorts are reported to have sunk two Communist naval patrol vessels which were escorting nine motorized junks

in Taichou Bay west of the Tachens on the night of 10 October. Several of the junks were reported damaged.

Prior to the engagement, the Nationalist ships had been patrolling north of Ichiang Island, and had been fired on by Communist artillery on Toumen Island, located about nine miles northwest of the main Tachen group.

Comment: Aside from this clash, the situation in the offshore islands was quiet over the week end. Communist artillery has fired only 88 rounds at the Quemoy since 8 October, and Communist air patrols near the Tachens have been infrequent.

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That this may be a lull before further Communist moves against the offshore islands is suggested by an 8 October Peiping broadcast that all units "are expected to inflict heavier blows" against the Nationalists and "strive for greater victories."



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NEAR EAST - AFRICA**7. Turkey favors indigenous approach to Middle East security:**

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Turkey and Iraq should move toward a bilateral security arrangement rather than revive the Middle East defense organization (MEDO) concept as recently suggested by Iraqi prime minister Nuri Said in London and Paris, according to Turkish vice premier Zorlu. Zorlu also told Ambassador Warren he feels strongly that the indigenous character of the Turkish-Pakistani agreement appeals to Middle East countries.

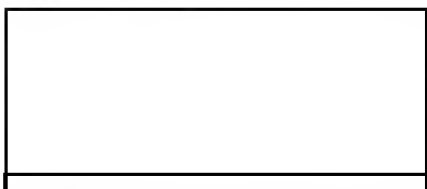
Zorlu offered no objection to Iraq's seeking bilateral agreements with Pakistan and Turkey, and thought that both agreements could later be tied in with the Turkish-Pakistani agreement.

Comment: Nuri's ambiguous statements about Iraq's intentions have been a major factor in the continuance of a stalemate in Middle East defense planning.

Nuri is currently scheduled to meet Prime Minister Menderes in Istanbul to discuss mutual defense problems. Ankara continues to explore means of strengthening Middle East defense, but has little hope that much progress will be made in these talks.

8. Egyptian regime reported in crackdown on Moslem Brotherhood:

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Egyptian prime minister Nasr has decided not to delay further in cracking down on antiregime Moslem Brotherhood leaders,

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Nasr plans this as a preparation for the signing of the Anglo-Egyptian agreement and the reopening of the universities.

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on the night of 8 October, Egyptian police began to arrest

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Brotherhood leaders and to conduct house searches of 30 government employees suspected of being Communists.

Comment: The regime may be increasing its activities against the Moslem Brotherhood in preparation for the expected announcement of the signature of the final agreement on the Suez base. Reports that over 100 high-ranking police officers have been dismissed during the past ten days suggest an effort to purge dissident and unreliable elements before publication of the agreement.

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LATIN AMERICA

9. Brazilian elections may give Communists 14 percent of lower house seats:

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Fragmentary returns from the 3 October congressional elections in Brazil indicate that 45 of the 326 seats in the Chamber of Deputies will go to Communists, unless there is preventive court

action,

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Comment: Statements from the Supreme Electoral Court in the past few days suggest that many victorious Communist and pro-Communist candidates may be barred from taking their seats, even though all of them campaigned under the labels of other parties including some of the center and right. The returns suggest a growth of leftist sentiment generally in Brazil as well as a marked gain in prestige for the Communist Party, which was outlawed in 1948. In the 1950 elections, only

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one Communist, who ran on another party's ticket, was elected. In 1947 the Communist Party had won about 10 percent of the popular vote.

It is unlikely that the two major center parties and their smaller allies will be outnumbered by any leftist combination in the new assembly. The outlook for a stable government working coalition remains in question, however, particularly in view of maneuvering for the 1955 presidential election.

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